

Public Utilities Commission
State of California

Water Branch
Office of Ratepayer Advocates

Report on the
Application for a General Increase in Rates
of California American Water Company
in its Coronado District

Application No. 04-03-023

Los Angeles, California
July 6, 2004

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Foreword

Victor Chan, Patricia Esule, Ishwar Garg, and Lana Tran,
prepared this report.

CHAPTER 1
INTRODUCTION AND SUMMARY OF EARNINGS

1.1 California American Water Company (Cal-Am) serves approximately 20,500 (primarily residential) customers in its Coronado District. The district serves the Cities of Coronado and Imperial Beach, a portion of the City of San Diego lying south of San Diego bay, and a small area of South Chula Vista; all in the County of San Diego.

1.2 The last increase in rates granted Cal-Am was authorized by Decision 95-12-041.

1.3 Cal-Am filed Application 04-03-023 on March 18, 2004, requesting authorization to increase revenues over present rates by \$352,900 or 2.86% in Test Year 2005, decrease revenues by \$43,100 or 0.34% in Test Year 2006 and \$28,400 or 0.22% in Attrition Year 2007. Cal-Am requested a return on equity of 10.50% for each year, which results in a return on ratebase of 7.85%, 8.07%, 8.24%, respectively, for the years 2005-2007 after considering its cost of debt.

1.4 This report incorporates the figures of weighted long-term debt and rate of return from a separate ORA report entitled "Water and Legislative Branch's Report on the Cost of Capital of California American Water Company," dated July 2004.

1.5 Cal-Am's Report on the Results of Operations dated March 2004 contains a description of its corporate history and present operations. For ORA's purpose, the materials contained in that report will not be duplicated.

1.6 Tables A-1 and A-2 set forth ORA's and Cal-Am's estimates for the Summary of Earnings at present, proposed, and recommended rates for Test Years 2005 and 2006. The tables also show the differences in dollars and percent. In

compliance with D.89-11-058, the present revenue for the second test year has been calculated by using flow-through treatment based on the utility's proposed rates for the first test year. All Tables are located at the end of this report.

ORA's Recommendation

1.7 Upon investigation, ORA recommends a decrease in revenue of \$80,400 in Test Year 2005 or 0.65%, a decrease of \$7,400 or 0.06% in 2006, and an decrease of \$32,900 or 0.27% in Attrition Year 2007. This translates into a net overall decrease of 0.78%. ORA recommends that the tariff be adjusted only once in 2005 to reflect these changes.

1.8 Compared to Cal-Am's application, ORA's recommendation for increases are based on its:

- Lower estimates of Operation, Maintenance, and Administration expenses (Chapters 4 and 5),
- Lower estimates of additions to Plant (Chapter 7),
- Lower Ratebase (Chapter 9), and
- Lower Cost of Capital (Separate Report).

1.9 In addition, ORA recommends that the Commission adopt a 15% discount for qualifying low-income customers.

CHAPTER 2
CUSTOMERS AND CONSUMPTION

2.1 ORA and Cal-Am agree in their estimates for Test Years 2005 and 2006 of Average Consumption per Customer and the estimates of the Average Services.

Consumption

2.2 For Test Year 2005 and 2006, Cal-Am estimated an average consumption of water per year for each Residential customer of 150.3 hundred cubic feet (Ccf) in Coronado District. ORA believes these estimates are reasonable. They represent the results of a regression analysis using 30 years of weather data and 10 years of recorded consumption. This is the standard method that the Commission approved in D.04-06-018, its rate case plan for Class A water utilities.

2.3 For the other classes of service, Commercial, Public Authority, and Industrial, Cal-Am also based its estimate on five years of recorded consumption. ORA believes these results are reasonable as well.

Unaccounted Water

2.4 For unaccounted water, Cal-Am requests 0.54% based on recorded figures of previous five years. ORA accepts this figure inasmuch as it reflects actual data derived from a comparison of water purchases and metered sales.

Customers

2.5 Cal-Am estimates an annual increase in service connections by applying the average growth in connections to average number of customers for each year. The estimated growth is based on averages from 1999 through 2003. ORA

believes that these estimates, which are based on actual increases, are reasonable.

CHAPTER 3
OPERATING REVENUES

3.1 This chapter provides ORA's analysis and recommendations of operating revenues for test years 2005 and 2006.

3.2 For Test Years 2005 and 2006, ORA and Cal-Am concur in their forecasts of revenue because they concur in their estimates of consumption and growth of customers, as described in Chapter 2, Customers and Consumption.

3.3 ORA includes an estimate of \$1,300 per year in additional Other Revenue due to ORA concurring in Cal-Am's request to increase the charge for reconnecting service as described in Chapter 11.

3.4 In compliance with D.89-11-058, the present revenue for the second Test Year 2006 has been calculated based on the proposed rates for the first Test Year 2005.

CHAPTER 4
OPERATION AND MAINTENANCE

4.1 This chapter sets forth the analyses and recommendations by ORA for Operation and Maintenance. ORA reviewed Cal-Am's application, analyzed its work papers, performed a field trip, and analyzed responses from written data requests and verbal requests to develop its independent estimates. Tables F-1 and F-2 show ORA's and Cal-Am's estimates.

4.2 The escalation factors used by ORA are those recommended by the Energy Rate Design and Economic Branch, dated April 2004 as shown in Attachment A; whereas, Cal Am used December 2003.

4.3 ORA and Cal Am used the same five years escalation adjusted average and escalated the adjusted average to the Test Years for estimating most of the expenses in this application.

Payroll

4.4 ORA's and Cal-Am's estimates of payroll for Test Year 2004 are \$1,948,400 and \$2,014,200 for Test Year 2005. ORA reviewed the payroll account and Cal-Am's contract with Utility Workers Union of America and found that Cal-Am's estimate for payroll expenses are reasonable.

Other Expenses

4.3 The differences between ORA's and Cal-Am's estimates of other expense categories are explained in the following paragraphs.

Storage Facilities Expense

4.4 ORA's estimates of storage facilities expense

for Test Year 2005 is \$8,855 and \$9,519 for Test Year 2006, whereas Cal-Am's estimates are \$9,270 and \$9,555. In reviewing the sub-account, Miscellaneous Operating Transmission and Distribution Storage account, ORA eliminated in its averaging a non-recurring expense of \$4,600 for weed abatement at tank site, which yields a normal expense of \$1,000. ORA's estimate is based on the average amounts recorded for this account in the past five years, excluding one time non-recurring expense, increased by ORA's factors of inflation. Cal-Am's estimates are based on the average of past five years. ORA's estimates are more reliable by excluding the non-recurring expense.

Transmission and Distribution (T & D) Lines

4.5 ORA's estimates of T & D Lines expense for test year 2005 is \$153 and \$165 for test year 2006, whereas Cal-Am's estimates are \$1,521 and \$1,562. The difference is mainly due to ORA's elimination of bee removal expenses. ORA considers bee removal as unusual event and is not likely to occur annually in the future. ORA's estimate is based on the average amount recorded for this account in the most recent four years, excluding bee removal expense, increased by ORA's factors of inflation. Cal-Am's estimates are based on the average of past five years for this account. ORA's estimates are more reliable for the reasons stated above.

T & D Meters

4.5 ORA's estimates of T & D Meters for test year 2005 are \$452 and \$488 for test year 2006. Cal-Am's estimates are \$1,055 and \$1,083. Cal-Am's estimate are based on the average amount of \$3,073, \$333, \$126, \$236, \$934 recorded from 1999 to 2003, whereas ORA's estimates are based on the average of the most recent four years, excluding the recorded amount from 1999, for which Cal-Am

could not justify the high amount. By eliminating the data from 1999, ORA's method provides a more reliable estimate of future expenses because the last four years are more indicative of the most recent trend.

T & D- Customer Installation

4.6 ORA's estimates of T & D- Customer Installation for test year 2005 are \$1,747 and \$1,885 for test year 2006, whereas Cal-Am's estimates are \$3,114 and \$3,198. Cal-Am's estimates are based on the average amount of \$4,926, \$4,897, \$1,301, \$2,370, and \$1,134 recorded from 1999 to 2003. ORA obtained its estimates by averaging the last three years of recorded data and escalated the results with its inflation factors. ORA used data from the last three years because it believes they are more indicative of the most recent trend for this account.

T & D Mains

4.7 ORA's estimates of T & D mains for test year 2005 are \$18,760 and \$20,242 for test year 2006, whereas Cal-Am's estimates are \$22,502 and \$23,146. Cal-Am's estimates are based on the average amount of \$27,439, \$31,457, \$22,469, \$18,901, \$10,105 recorded from 1999 to 2003. ORA obtained its estimates by averaging the recorded data for last three years and escalated the results with its inflation factors. ORA's method is more indicative of the most recent trend for this account.

T & D Hydrants

4.8 ORA's estimates of T & D Hydrants for test year 2005 are \$1,243 and \$1,341 for test year 2006, whereas Cal-Am's estimates are \$2,194 and \$2,252. Cal-Am's estimates are based on the average amount of \$3,890, \$3,162, \$1,534, \$1739, \$135 recorded from 1999 to 2003, whereas ORA's estimates are based on the average of last three years,

excluding the recorded amount from 1999 and 2000, escalated by its inflation factors. By eliminating the data from 1999 and 2000, ORA's method provides a more reliable estimate of future expenses because of the reduction in the variations of the data by eliminating non-typical data. ORA's method is also more indicative of the most recent trend for this account.

Customer Accounts--Uncollectibles

4.9 ORA's estimates of Customer Accounts--Uncollectibles are \$39,754 for test year 2005 and \$40,942 for test year 2006, whereas Cal-Am's estimates are \$42,522 and \$42,424. The main difference between ORA and Cal-Am 's results are attributable to the calculation of uncollectible percentage. Cal-Am calculated the uncollectible percentage by using inflation adjusted expense divided by inflation adjusted revenue for each year from 1999 to 2003 and the average of these years, calculated to be 0.3353%, are used as the uncollectible percentages for test years 2005 and 2006. By contrast, ORA Employs the same methodology except uses non-inflated revenue and expenses in calculating the uncollectible percentage. This method provides a result of 0.3218%. ORA's result should be adopted, as it is the percentage of uncollectibles based on actual experience.

CHAPTER 5
ADMINISTRATIVE AND GENERAL

5.1 This chapter sets forth the analyses and recommendations of ORA for Administrative and General Expenses (A&G). ORA reviewed Cal-Am's application, analyzed Cal-Am's work papers, made field trip observations, and reviewed responses from written data requests and verbal requests to develop its independent estimates.

5.2 The escalation used by ORA is that recommended by the Energy Rate Design and Economic Branch as shown in Attachment A.

Payroll

ORA's discussion of Payroll in Chapter 4 also applies to labor related expenses in Administrative and General.

Other Expenses

5.3 The differences between ORA's and Cal-Am's estimates of other expense categories are explained in the following paragraphs

Regulatory Commission Expense

5.4 ORA's estimate of Regulatory Commission Expense is \$64,301 for Test Year 2005 and \$62,914 for 2006, whereas Cal-Am's estimate is \$70,131 for test year 2005 and \$68,744 for test year 2006. ORA's estimate is based on following adjustment to the total regulatory expense for the four districts: (a) reduction of public meeting from four to three due to cancellation of the Public Participation Hearing in Coronado, (b) an error corrected by ORA on Company Personnel Expense from \$163,246 to \$81,308. ORA's estimates should be adopted as they reflected the actual experience.

Miscellaneous General Expenses

5.5 ORA's estimate of Miscellaneous General Expenses for Test Year 2005 is \$150,605 and \$176,902 for 2006, whereas Cal-Am's estimates are \$175,653 and \$194,459. ORA's estimates are based on following adjustment made to this account: first: ORA uses the latest recorded expense from 2003, inflated by its inflation factors, to calculate the expense for sub-account 520100.16, Materials and Supplies Operations A&G and, and obtained \$19,046 for test year 2005 and \$20,551 for 2006; whereas Cal-Am's estimates are based on the average amount of \$61,765, \$58,796, \$49,938, \$25,265, \$17,460 recorded from 1999 to 2003, inflated by its inflation factors. ORA result is more reasonable as expense in this account indicates a decreasing trend.

5.6 For the second adjustment, ORA estimates the sub-accounts of employee expenses, travel and meals based on the average total of these accounts recorded for the last three years, inflated by its inflation factors; whereas Cal-Am is based on the average of five years. The total recorded expenses for these sub-accounts are \$7,651, \$8,192, \$1,628, \$1,988, and \$2,458 for 1999 through 2003. By eliminating the data from 1999 and 2000, ORA's method provides a more reliable estimate of future expenses based on the most recent trend of the last three years.

CHAPTER 6

BALANCING AND MEMORANDUM ACCOUNTS

6.1 In its application, Cal-Am requests authority to establish two new memorandum accounts to accumulate certain expenses for later recovery through rates. The purpose of such accounts would be to avoid the well-established prohibition of retroactive ratemaking. One such memorandum account would be for the expense of a pilot study to identify new sources of supply and the other account would be to recover previously unbilled charges for water purchased from the City of San Diego. This chapter discusses those requests.

Study of Alternate Sources of Supply

6.2 Cal-Am states that when and if it participates in any study for securing additional supplies for its Colorado District service area, it desires to record those expenses in a memorandum account.

6.3 Currently, Cal-Am purchases all water for the Coronado District from the City of San Diego. By establishing a memorandum account, Cal-Am could segregate expenses it incurs to explore and develop alternate sources such as desalination or other treatment options.

6.4 In D.02-08-054, the Commission stated that memorandum accounts are appropriate when the following conditions exist:

- a. The expense is caused by an event of an exceptional nature that is not under the utility's control;
- b. The expense cannot have been reasonably foreseen in the utility's last GRC and will occur before the utility's next scheduled rate case;

c. The expense is of a substantial nature in the amount of money involved; and

d. The ratepayers will benefit by the memorandum account treatment.

6.5 Applying the above conditions to Cal-Am's request, ORA finds that Cal-Am clearly fails to meet conditions b) and c).

6.6 Under condition b), the expense for this project were foreseen by Cal-Am during the last GRC in 1995 and it anticipated it would occur before the current Cal-Am GRC. In Cal-Am's Comprehensive Planning Study prepared in June 2000, this project was proposed in the amount of \$225,000 toward participating in feasibility studies and/or initiating the development of reliable source of supply alternatives. However, as of today, Cal-Am has yet to incur any cost associated with this project.

6.7 Cal-Am also fails to meet condition c) as the expense for this project is not of substantial nature based on D.02-08-054, wherein the Commission granted California Water Service Company (Cal Water) the permission to establish a memorandum account to track the cost associated with treating its contaminated wells in the Salinas District.

6.8 In that decision, Cal Water would incur \$611,000 in expenses in the treatment of its contaminated wells. Based on Cal-Water's expected 2002 Operating Revenues of \$10,913,600 for the Salinas District, the expense incurred for the project was 5.6% of the total operating revenue. Thus, the expenses were considered substantial.

6.9 In contrast to Cal Water, Cal-Am's estimated cost of \$225,000 for this Alternative Source of Supply

Investigation is only 2% of its 2003 operating revenues of \$12,474,778. Consistent with D.02-08-054, this amount is not substantial and ORA recommends, therefore, that this request be disallowed based on above reasons.

Increased Purchased Water Expense

6.10 Cal-Am requests that it be given authority to establish a memorandum account to identify and recover increased purchased water expense that may result if the meters measuring purchased water are tested and billing adjustments become necessary.

6.11 The meters through which Cal-Am receives water have not been tested for several years. If these meters are tested, adjusted, or replaced to more accurately measure the amount of water purchased, expenses may increase.

6.12 Before applying the principles for establishing a memorandum account as set forth in D.02-08-054, ORA notes that Cal-Am currently is maintaining a balancing account for purchased water. In that account, when the price of water differs from the unit cost the Commission adopts in a general rate case, the difference and the quantity purchased is recorded in the balancing account. Any action on the part of the City of San Diego that affects either the price or the amount purchased should be recorded in the balancing account. For that reason, therefore, Cal-Am needs no new memorandum account when its balancing account will serve the same purpose.

6.13 In addition, Cal-Am's request fails to meet the criteria for establishing new memorandum accounts set forth in D.02-08-054 inasmuch as testing of meters has not been performed, and Cal-Am is unable to provide any accurate estimate of the amount of the expected increase or any estimate as to when any back billing would occur. ORA

recommends, therefore that this request be denied.

CHAPTER 7

PLANT

7.1 This chapter sets forth the analyses and recommendations of ORA regarding plant. Tables J-1 and J-2 show ORA's and Cal-Am's estimates of plant for the Test Years 2005 and 2006. ORA conducted inspections of Cal-Am's system, reviewed its application, and annual reports filed with the Commission to form a basis making its estimates. ORA estimates of average Plant are \$20,534,800 for Test Year 2005 and \$20,989,300 for 2006, whereas Cal-Am requested \$20,592,700 in Test Year 2005 and \$20,858,400 in 2006. The following is a discussion of ORA findings and basis for its recommendations.

Sale of Land

7.2 ORA discovered that a parcel of land and a tank situated on it owned by Cal-Am since 1966 was reclassified to non-operating property in 1982. This property was sold in June 2000, for \$1,800,000 with a net gain on the sale of \$1,755,469. Cal-Am estimates the value of land and improvements in 1982 at the time of the transfer was \$181,870.

7.3 In accordance with any reasonable interpretation of Section 790 of the Public Utilities Code, ORA recommends that only the gain in value since the time the property became no longer used and useful should be included in ratebase, not the full gain. The gain in value while the plant was in use serving ratepayers was \$147,151, which is based on its estimated value at the time it was declared un-useful (\$181,870) and the book value at the same time (\$34,719). This amount represents the increase in value while the property was in ratebase, and accordingly

the ratepayers should benefit from the gain during that period. The appropriate way to recognize that gain at this time would be to credit \$147,151 to Contributions, as ORA recommends.

Construct Building at Third and Calla Street

7.4 Cal-Am requests \$150,000 in Test Year 2005 to build a storage building at Third and Calla Street. It has failed, however, to provide any substantiation that this project can be completed by 2005.

7.5 During a field trip to the area, ORA discovered that for this project a permit is required from the California Coastal Commission, which would require two years to process. Given that Cal-Am has yet to file such an application to the Coastal Commission, ORA recommends authorization for this project be withheld at this time.

Install 530 feet of 8-inch Main in Palm Avenue

7.6 Cal-Am requests \$150,000 for Test Year 2005 to build this project. Cal-Am claims that this project will serve to eliminate marginal pressure deficiencies within certain portions of Montgomery Tank Zone and Piccard Zone. Upon investigation, ORA discovered that the current pressures within these zones is within the requirements of General Order 103, the Commission's standards for the design and construction of water utilities. The current pressure in these zones is also sufficient to meet the existing demand, as there have not been any customer complaints in the past two years relating to pressure. ORA recommends, therefore, that the Commission withhold authorizing any allowance for this project.

Additions to Plant in Test Year 2006

7.7 Cal-Am failed to request any funds for

additions to Plant for Test Year 2006. Cal-Am responds that it made no request because it will use \$600,000 of internally generated funds to fund any needed additions. In spite of its response to inquiries, Cal-Am should be authorized only the ratebase it requested in its application. The source of funds for improvements should have no effect on its requested ratebase.

7.8 To maintain the ratebase neutrality Cal-Am requested, ORA recommends showing these additions in Plant but including the same amount in Contributions.

CHAPTER 8
DEPRECIATION

8.1 Tables A-1 and A-2 show ORA's and Cal-Am's estimates of Depreciation and Tables K-1 and K-2 show the weighted-average Accumulated Depreciation and Amortization for Test Years 2005 and 2006. The differences in ORA's and Cal-Am's estimates of depreciation are due to the differences in net plant additions, which are discussed in Chapter 7, Plant.

8.2 ORA recommends Depreciation expense of \$524,100 in Test Year 2005 and \$527,500 in Test Year 2006, whereas Cal-Am's estimates are \$525,300 and \$529,800 for 2005 and 2006.

CHAPTER 9

RATEBASE

9.1 Tables L-1 and L-2 compare ORA's and Cal-Am's estimates of Ratebase. ORA's estimates are \$9,845,900 for Test Year 2005 and \$9,610,600 for Test Year 2006, whereas Cal-Am estimates are \$10,234,000 for Test Year 2005 and \$10,314,600 for Test Year 2006. The differences are due to different estimates of Plant, Contributions, and Working Cash. Additions to Plant and Depreciation are discussed in Chapters 7 and 8.

Working Cash

9.2 Cal Am's estimate for working cash in Test Year 2005 is \$1,127,200 and \$1,171,900 in 2006, whereas ORA's estimate is \$959,400 for 2005 and \$913,800 for 2006. The differences are attributable to the calculation of lead-lag days for: 1) Revenue, 2) Purchased Water, 3) Federal and State Income Taxes, 4) Ad Valorem Taxes, 5) PUC Surcharge, 6) Customer Deposits, and 6) Amortization of Deferred Taxes.

Revenue

9.3 Cal-Am assumed that 100% of its customer billing is rendered bi-monthly, whereas 10% is actually on a monthly basis. ORA has made this adjustment in its calculations.

Purchased Water

9.4 In calculating the days of lead and lag, Cal-Am assumed equal amounts of purchases from each of two suppliers, whereas ORA used the weighted average for the purchases of each supplier.

Federal and State Income Tax

9.5 ORA corrected an error Cal-Am made in the number of days between the payment quarters and payment dates.

Ad Valorum Taxes

9.6 Cal-Am erroneously included Ad Valorum Taxes in the lead-lag portion as well as the Operational Cash portion of its request. ORA corrects this mistake by showing the amount only in the lead-lag portion.

PUC Surcharge

9.7 Cal-Am assumed that its PUC Surcharge collections would be deposited April 15, whereas the remittances were received on April 19, 2004. ORA assumes this pattern will prevail for the Test Year, also.

Customer Deposits

9.8 Cal-Am refunds the customer deposits after customers have established credit with the utility. ORA has recognized that the advance payment by the customers is a reduction in the Operational Working Cash requirements.

Amortization of Deferred Taxes

9.9 Cal-Am calculates the amount for Amortization of Deferred Tax to be \$119,200 for 2005, and \$0 for 2006. ORA calculates \$-118,100 for 2005 and \$-59,500 for 2006. These should be negative number because Cal-Am customers fund this expense through ACRS/MACRS (Modified Accelerated Cost Recovery System), before Cal-Am pays this tax. ORA's estimates also differ from Cal-Am's due to its differing estimates of Ratebase.

CHAPTER 10
MISCELLANEOUS

10.1 A Notice of Increased Rates was published in Coronado area newspapers on April 14 and 15, 2004. Notices were directly mailed to the company's customers on April 22, 2004.

Customer Service and Protests

10.2 ORA, through the Commission Public Advisor's Office, has received no protest to the proposed increase in rates and addressing various related cost issues such as memorandum accounts, service, compensation, water quality, and management of the water system.

10.3 The Consumer Services Division has received one informal complaints involving rates, billing, installation, service, miscellaneous, and non-regulated issues for the period November 2001 to May 2004.

10.4 ORA contacted the Department of Health Services which advised that the overall operation and condition of Cal-Am's facilities and water quality are satisfactory and that there are no compliance orders or other matters that require correction.

Water Management Program

10.5 As a part of its application, Cal-Am submitted a Water Management Plan as required by D.90-08-055. It describes the conservation, landscaping, and education measures in which Cal-Am is participating to make certain that its supply will remain secure for the foreseeable future. The program appears reasonable to ORA.

MTBE Litigation

10.6 Cal-Am informed the Commission that the company

has filed a lawsuit in the Monterey County Superior Court on September 30, 2003, and filed a First Amended Complaint on November 14, 2003, naming as defendants 17 major oil and chemical companies that manufacture MTBE, refine gasoline containing MTBE, and/or supply gasoline containing MTBE to retail gasoline stations in the vicinity of certain of the Company's drinking water production wells located throughout California, including in the Southern Division.

10.7 In its response to ORA's data request on this issue, Cal-Am indicated that investigation is progressing and as of yet has identified any sites of MTBE contamination, current, threatened or potential, in the Coronado Service area.

10.8 ORA recommends that any settlement obtained as a result of this litigation should be tracked in the current contamination memorandum account and should be passed on to benefit the ratepayers.

CHAPTER 11
DESIGN OF RATES

11.1 This chapter sets forth the recommendations of ORA regarding design of rates. In D.86-05-064, the Commission issued its Water Rate Design Policy and addressed the following aspects of rate design:

- Service charges as a percentage of fixed costs
- Number of commodity blocks
- Phasing out lifeline rates
- Seasonal rates, and
- Conservation in rates.

11.2 The policy requires that service charges be set to recover up to 50% of fixed costs. The recovery of up to 50% of fixed cost should be done if possible without burdening any class of customers with an increase significantly more than the average overall increase.

11.3 Cal-Am's application in its proposed rate schedules follows the Commission's policies and no change in design is needed.

Billing for Franchise Fees

11.4 Cal-Am requests authority to separately show as a surcharge on customers' bills an amount for the franchise tax levied on customers in the cities it serves. Currently, the City of Imperial Beach, in which most of the Coronado District's customers reside, collects a franchise tax from Cal-Am equal to 2% of the revenue from the customers in the city. The amount is not separately stated on customers' bills, but is included in general rates.

11.5 Cal-Am anticipates that the City of San Diego also may establish a franchise tax. With Cal-Am subjected

to franchise taxes from both the City of Imperial Beach and the City of San Diego, it requests that the expense be eliminated from general rates and instead shown as a separate item and accounted for and separately. This would be accomplished by Cal-Am filing revised tariffs to show a special condition calling for a surcharge.

11.6 ORA believes such additional administrative effort on the part of Cal-Am and the Commission staff would serve no useful purpose and would add clutter to customers bills. Specifically, the Commission has considered such matters and issued D.89-05-063 that establishes the policy for the treatment of taxes and fees imposed by local governments on regulated utilities.

11.7 The Commission's policy has two guidelines for utilities subject to special assessments. One of which is that "if the special taxes or fees imposed by a locality tend to total about the same level as those imposed by other localities in the service territory, the assessment should be included in base rate."

11.8 As Cal-Am states, the City of Imperial Beach is collecting 2% of the net revenues of Cal-Am's customers in the city as a franchise fee. When City of San Diego begins to collect a franchise tax, Cal-Am believes it would likely be similar to that of Imperial Beach.

11.9 As such, Cal-Am should include both of these franchise taxes in its basic rates in conformance with the Commission's policy. ORA recommends, therefore, that this request be denied.

Increase After-Hour Reconnection Charge

11.10 Cal-Am requests that it be authorized to increase its after-hour reconnection charge from \$15 to \$50 in order to recover more of its actual costs and be of

sufficient magnitude to discourage customers from letting their service be terminated for non-payment.

11.11 The after-hour reconnection charge is specified in Cal-Am's Tariff Rule 11.C.1 and has not been changed since 1973. The after-hour reconnection charge applies to customers who request re-establish service after normal business hours when their service has been terminated for non-payment.

11.12 The present charge of \$15 fails to cover Cal-Am's estimated expense of approximately \$70 for overtime and other expenses required to carry out such reconnections.

11.13 ORA agrees that this increase to \$50 appears to be justified on the basis of actual expenses.

CHAPTER 12

ATTRITION

12.1 An allowance is needed when increases in revenue and productivity are insufficient to offset increases in expenses (including the effect of cost of capital), thereby causing a decline in the rate of return. Since the Commission expects water utilities to file for an increase no more frequently than once every three years, an allowance to compensate for a possible shortfall in revenue in the years following the last test year may be necessary.

12.2 The allowance consists of two parts: operational and financial. Operational attrition is the result of changes in rate of return due to changes in revenues, expenses, and ratebase at proposed rates between the first and second Test Year. Financial attrition occurs when there is a change in the utility's cost of capital between Test Years. The total attrition is the sum of operational and financial attrition.

12.3 The difference in ORA's and Cal-Am's estimates for Attrition Year 2007 is due to their different estimates of revenues, expenses, ratebase, and rate of return.

Chapter 13

Rate Assistance for Low-Income Customers

13.1 In Commission Decision No. 02-12-067, Cal-Am was ordered to work with the Commission to establish a company-wide low-income program, and to, for five years, fund a portion of the program with \$50,000 of shareholder funds.

13.2 Cal-Am proposes to provide assistance to its direct customers as well as non-customer water users¹. Cal-Am's low-income rate proposal, included in this application, adopts the same income eligibility guidelines as the energy CARE program². For eligible direct metered customers, the company proposes to waive the service charge portion of its billing up to \$10.00 per month (whichever is lower). Qualified direct flat rate customers (primarily residing in the Sacramento Division) would receive waiver of one-half the monthly charge or a reduction in billing of \$10.00 per month; whichever is greater.

13.3 Cal-Am proposes to provide assistance to low-income non-customer water users who receive service through either an individual meter or a master meter but do not receive or pay a bill for water service. It is presumed that payment for water service is included in rent payments to the landlord who is the company's customer of record. Cal-Am proposes to provide the non-customer water user with assistance in the form of a reduction in rent.

13.4 To accomplish this, Cal-Am proposes to provide the non-customer water user with a coupon equivalent to the lower of the monthly service charge paid by a 5/8 inch

¹ Cal-Am defines water users as those in its service territory that are the end users of the water, including low-income households residing in rental property served through a master meter.

² CARE income guideline is 175% of the federal poverty guideline.

metered Cal-Am customer in the district, or \$10.00 per month whichever is lower. In order to enroll in the program, the tenant will be required to submit to the company, a certified written agreement signed by the landlord stating that the tenant's rent will be reduced by the amount of the water coupon. The landlord could then remit the water coupon to Cal-Am for payment of the charges associated with the master meter.

13.5 In addition to the low-income assistance program, Cal-Am proposes mandatory conservation kits be installed at Cal-Am's expense. The company also proposes a rebate program allowing up to \$100 dollars for replacement of each high water use fixture or appliance.

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13.6 ORA opposes Cal-Am's low-income program, as described in this application. The program proposed by Cal-Am is overly complex and would likely prove burdensome to the company's ratepayers.

13.7 The program is overly complex because it requires the utility to take on the additional tasks of; identifying all qualified non-customer water users, verifying the validity of signed landlord and tenant agreements, distributing and tracking the assistance coupons to the non-customer, and ensuring whether the promised decrease in rent (in exchange for the low-income water coupon) is actually passed on to the tenants.

13.8 The additional costs to implement and manage a low-income program that includes assistance of up to \$10.00 per month per non-customer water user could dramatically increase the total cost of the program. Presently, the number of potential qualified non-customer water users is

unknown. It is possible that the qualified non-customer water users may outnumber Cal-Am's qualified customers.

13.9 Since the program will be supported by increased rates to the company's ratepayers who exceed the income eligibility limits, it is important that the costs be reasonable and not over-burden ratepayers.

13.10 Cal-Am's application is deficient in that it includes no estimate of the costs associated with its proposal, to provide assistance to either its own customers or non-customer water users. Other than economic demographics obtained from the 2000 Census, Cal-Am failed to provide sufficient information to support either the need for program, or the number of customers and non-customer water users who would likely benefit from such a program.

13.11 In October 31, 2003, ORA prepared a report on the status of low-income programs for water service entitled, "Programs for Low-Income Water Customers". Attached to this report is a copy of ORA's October 31st report. In its report, ORA examined the low-income proposals submitted by Class A water utilities. As part of its report, ORA proposed a simple standardized program that could be easily implemented and provide an adequate amount of relief to low-income water customers. In response to Cal-Am's program described in this application, ORA recommend its alternative program to provide assistance to Cal-Am's low-income customers.

13.12 In Cal-Am's most recent GRC, A.03-07-036, ORA proposed a program of assistance that would provide a 15% discount for qualified low-income customers directly served by the company, as well as, water users served via a sub-metered system. Households residing in mobile home parks or multi-family complexes, receiving water via a sub-meter, are

typically billed by their landlord (the utility's master-meter customer) according to the utility's approved tariff. Extending a low-income program to these users is consistent with the provisions of the CARE program already established for energy service. In A.03-07-036, ORA and Cal-Am reached a settlement agreement to implement ORA's proposal.³

13.13 In this proceeding, ORA recommend that Cal-Am adopt the same percentage discount program as agreed to in A.03-07-036.

13.14 ORA's proposal is consistent with the CARE program, and can be easily implemented by the utility and would be easily understood by consumers already familiar with CARE. While a 15% discount provides an adequate reduction to the total amount billed, the amount is not so high as to encourage excessive water consumption

13.15 The inclusion of households residing in housing such as apartments, served via a master meter where their individual use is not sub-metered, presents many complex issues and unanswered questions including;

- The inability to determine an appropriate discount or amount of assistance since tenants' use is not metered,
- Is it fair to provide the same assistance to all tenants regardless of their actual use?
- Should the assistance be delivered directly to the tenant or to the master meter customer?

13.7 The additional conservation measures and appliance rebate program proposed by Cal-Am are not necessary as part of the low-income program. There is no evidence to suggest that water consumption will

³ A final decision in A.03-07-036 has not yet been rendered.

significantly increase in conjunction with providing assistance to low-income customers. The company has filed a water management plan that includes proposals similar to those included as part of the low-income proposal.

13.8 ORA recommend that the revenue shortfall associated with the low-income program be recorded in a balancing account. Other expenses associated with the program should be recorded in the company's appropriate expense accounts.

13.9 According to D. 02-12-068, Cal-Am is required to allocate \$50,000 per year for five years to the implementation of low-income programs in its service territories in California.⁴ Therefore, a portion of the costs associated with this program will be covered by these allocated funds and are not recoverable from ratepayers. After a period when recoverable costs of the program are known, Cal-Am can request recovery through an adjustment in rates.

⁴ Decision (D) 02-12-068, to transfer control of California-American Water Company (under the parent company American Water Works Company) to RWE Aktiengesellschaft.